

Message Text

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ACTION EA-10

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TAGS: ENRG, KS

SUBJ: NIOC INTEREST IN BUYING HALF OF GULF INTEREST IN
KOREA OIL COMPANY

1. GULF REPRESENTATIVE HARBAUGH HAS INFORMED US THAT GULF VICE-PRESIDENT FOR ASIA, MANSFIELD, IN A RECENT CONVERSATION WITH MINISTER OF COMMERCE AND INDUSTRY, CHANG YIE JOON, ADVISED THE ROKG THAT THE NATIONAL IRANIAN OIL COMPANY (NIOC) WAS INTERESTED AND PREPARED TO BUY ONE-HALF OF GULF'S 50 PERCENT INTEREST IN KOREA OIL COMPANY (KOCO). UNDER THE PROPOSED ARRANGEMENT WHICH GULF ORIGINALLY SUGGESTED TO THE IRANIANS, NIOC WOULD UNDERTAKE TO PROVIDE 50 PERCENT OF THE CRUDE OIL IMPORTED BY KOCO. THE SALE OF ONE-HALF OF GULF'S INTEREST IN KOCO TO NIOC WOULD RESULT IN A REALIGNMENT OF KOCO OWNERSHIP AS FOLLOWS: 25 PERCENT GULF, 25 PERCENT NIOC AND 50 PERCENT ROKG (THROUGH WHOLLY-OWNED KOREA DEVELOPMENT BANK).

2. HARBAUGH REPORTED THAT CHANG YIE JOON APPEARED EXTREMELY INTERESTED IN THE PROPOSITION BUT HAD ASKED GULF TO DEFER FURTHER ACTION UNTIL AFTER
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THE ROKG HAD CONCLUDED ITS NEGOTIATIONS WITH THE IRANIANS FOR A PROPOSED 50 TO 60 THOUSAND BARREL TOPPING OFF PLANT PLUS A 2,500 TO 4,000 BARREL LUBE OIL FACILITY IN A JOINT VENTURE WITH THE SSANG YANG CEMENT COMPANY.

3. HARBAUGH HAS PROPOSED TO THE ROKG THAT THEY CONSIDER COMBINING THE TWO PROJECTS TO TAKE FULL ADVANTAGE OF THE EXCESS REFINING CAPACITY AVAILABLE AT KOCO. HOWEVER, HE BELIEVES THAT THE ROKG IS HESITANT TO CONSIDER COMBINING THE TWO PROJECTS BECAUSE THE SSANG YANG PROPOSAL HAS ALREADY BEEN APPROVED BY PRESIDENT PARK AND MOST PROBABLY BECAUSE THERE REMAIN STRONG PRESSURES WITHIN THE ROKG TO PROCEED WITH THE CONSTRUCTION OF A FOURTH REFINERY.

4. HARBAUGH SAID THAT IN ADDITION TO PURCHASING ONE-HALF OF GULF'S EQUITY PARTICIPATION (THIRTY MILLION DOLLARS) IN KOCO, THEY WOULD ASSUME 50 PERCENT OF THE OUTSTANDING LOANS NOW ESTIMATED AT 70 MILLION DOLLARS. HARBAUGH SPECULATED THAT THE CURRENT VALUE OF THEIR EQUITY WOULD BE IN THE NEIGHBORHOOD OF 50 MILLION DOLLARS. UNDER THE PROPOSED ARRANGEMENT NIOC WOULD PURCHASE 50 PERCENT OF GULF'S EQUITY FOR ABOUT 25 MILLION DOLLARS, PICK UP 35 MILLION DOLLARS OF THE CURRENT LOAN BALANCES, AND AGREE TO PROVIDE 50 PERCENT OF THE CRUDE IMPORTED BY KOCO.

5. HARBAUGH ALSO MENTIONED THAT THE MUCH DISCUSSED POSSIBILITY OF A SAUDI INVESTMENT IN A REFINERY IN KOREA APPEARED TO BE DEAD. HE SAID A CURRENT COMPLETELY UNFOUNDED RUMOR WITHIN MCI ATTRIBUTED THE SAUDI WITHDRAWAL TO A CONVERSATION GULF CHAIRMAN DORSEY HAD WITH KING FAISAL SOMETIME AGO IN WHICH DORSEY ALLEGEDLY PERSUADED THE SAUDIS NOT TO INVEST IN A REFINERY IN KOREA AT THIS TIME.
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